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FM AMEMBASSY CAIRO
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USAID FOR ANE/NEA/MCCLLOUD

E.O. 12958: DECL: 07/17/2018
TAGS: [EAID](#) [PREL](#) [KDEM](#) [EG](#)
SUBJECT: MIC'S ABOULNAGA REVIEWS BILATERAL ASSISTANCE
RELATIONSHIP

REF: A) CAIRO 920 B) CAIRO 399

Classified by Ambassador Margaret Scobey for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Ambassador and USAID Mission Director spent two hours with MIC Minister Abounaga on July 17 reviewing the state of play on both the Egyptian position on the proposed ESF levels for 2009 and on Democracy and Governance programming. Abounaga confirmed that MIC will not sign any new agreements or any extensions to existing agreements that would require the use of FY 2009 or beyond funding. MIC is willing to continue to fund ongoing projects with FY 2008 money, and will continue to propose that FY 2009 ESF and after be used for debt reduction. Abounaga explained that since the GOE "does not accept" the FY 2009 ESF proposal, her ministry would not approve any proposal that required use of 2009 funding. Rejecting the argument that using new money to try to repay old debt made no financial sense, she made clear that the GOE saw this as a political decision that could remove "a thorny issue" affecting an otherwise solid bilateral relationship. Abounaga understood that it likely would be many, many months before a new Administration and Congress had a chance to review the aid level, with no guarantee that any changes to the US position would be forthcoming.

¶2. (C) Summary continued. Abounaga raised oft-repeated objections to the D&G program: it was not consistent with the overall bilateral framework that governed the ESF program nor the 2004 agreement on direct grants by funding entities that were not formally registered NGOs. The Ambassador summarized the US view: we wanted to encourage constructive, legal civil society activities regardless of whether the groups were registered NGOs; we were committed to full transparency with the GOE, and we would offer an opportunity for the GOE to object to any organization connected with violent extremism. Abounaga complained that the Mission has not responded to her May follow-up letter on funding for civil companies. The Ambassador offered to consider a response but warned that it would not forswear funding civil companies or other legal Egyptian entities, whether they are NGOs or not. USAID will take a close look at the potential programmatic implications of the MIC decision not use FY 2009 money for USAID programs and will report septel. END SUMMARY.

EGYPT DOES NOT ACCEPT FY 2009 ESF PROPOSAL

¶3. (C) Ambassador and USAID Mission Director spent two hours with MIC Minister for International Cooperation (MIC) Fayza Minister Fayza Abounaga on July 17 to discuss the current and future ESF program in Egypt. Abounaga said she had had good discussions in Washington in May, particularly on the Hill where she said she found considerable sympathy for Egypt's view that \$200 million ESF for 2009 was inadequate, given the fact that Egyptian debt repayments to the US would

surpass the ESF payment by well over \$100 million. Abounaga said she understood that notwithstanding this sympathy, the Administration did not intend to alter its proposal to Congress for FY2009 and that the Congress may allow FY2009 spending to be governed by a CR instead of new legislation.

14. (C) Abounaga also confirmed what USAID had heard at the working level last week -- that MIC would not sign any new agreements or any extensions to existing agreements that require FY 2009 funds or any future funding. MIC will agree only to fund ongoing projects with FY 2008 money. If these funds are not adequate, they will consider reprogramming already appropriated funds on a case by case basis.

15. (C) Abounaga explained that since the GOE "does not accept" the FY 2009 ESF proposal--a "unilateral decision made without consultation" the GOE cannot agree to projects that rely upon funding from a 2009 appropriation. The Egyptians have counterproposed channeling all future ESF funding to debt relief. Such a move would, she said, "take away a thorny issue that is affecting an otherwise healthy relationship." The GOE is not only unhappy with the level of the funding but also with the potential for again attaching political conditions to the release of the funds. She said the decision was political, and not based on economic or financial considerations. The Ambassador observed that it appeared that Egypt intended to await a new Administration and Congress if necessary, which could put the USAID program on hold for many months with no guarantee that a new Administration would come to a different conclusion. Abounaga agreed. The Ambassador probed for a fallback position for Egypt, but Abounaga would not speculate.

16. (C) The Ambassador asked whether or not Egypt was still interested in using ESF funds to establish a foundation or legacy mechanism, and handed to the minister a paper describing different existing endowment structures. Abounaga noted that consideration of such a foundation would include the same issues as raised above, particularly the Egyptian insistence that such a mechanism had to be without political conditionality, although she realized that the purpose of the legacy mechanism would have to be jointly agreed upon.

Democracy and Governance: Civil companies

17. (C) Much of the meeting focused on the issue of continued USAID direct grants to civil companies under the Democracy and Governance program. The Ambassador acknowledged an unanswered late May letter from Abounaga complaining about the latest grants given to entities that had not been registered in Egypt (ref b). She stated that the USG had agreed with Egypt that it would fund legal entities in Egypt to support democracy strengthening and civic participation. Since the 2004 agreement, we had supported groups and individuals carrying out legitimate projects in furtherance of D&G goals. We had been and would continue to be completely transparent in our funding. In addition, in response to previously-expressed concerns about security (ref a), the U.S. offered to delay disbursement of funds to grantees for a period of time to allow the GOE an opportunity to convey to us, via existing intelligence liaison channels, evidence of links to violent extremism. Should such evidence be provided, the US would not proceed with the grant.

18. (C) The USAID mission director then reviewed recent independent D&G assessments, noting the teams had found that the total level the USG is spending on these programs is appropriate. Some local NGOs felt their grants might be too large, and it would be better to fund more organizations, but with smaller amounts. The assessments also recommended expanding programming to local community action groups outside of Cairo. A recent USAID audit found the NGOs were adhering to USG accounting requirements, and the few issues that were identified are being resolved through technical assistance. USAID Director made clear that the teams only made assessments and that funding decisions for D&G

programming would be made in Washington.

¶9. (C) Abounaga appreciated the read-out of the D&G program but asked for further details about the results of the activities of the NGOs and other grantees. She repeated longstanding concerns that the overall program is too large, and that we should not be funding civil companies. She complained that although grants under the direct grants program are not subject to prior GOE approval, the program itself falls under the bilateral assistance agreement. She warned that USAID should not be funding unregistered international NGOs including the US-based institutes, with bilateral funds. The minister cautioned that if these groups received funding directly from the USG for activities within Egypt, this would "contribute to an atmosphere of suspicion."

¶10. (C) The Ambassador said she understood that the issue of direct grants to civil companies remains an area of disagreement between the US and Egypt. She underlined that the USG, due both to congressional instructions and its own conviction--intended to continue funding legitimate activities of groups and individuals regardless of whether they were formally registered NGOs. She noted US concerns about what appeared to be "gatekeeping" for political purposes through the NGOs registration and funding process. (Abounaga challenged the Ambassador by asking if the US would insist upon funding organizations in contravention of direct GOE opposition, even if the decisions were political. The Ambassador answered that we were seeking to avoid confrontation with the GOE on these issues and to find a modus vivendi.) The Ambassador pointed out that other donors are funding civil companies without apparent repercussions.

¶11. (C) Abounaga responded that the Egypt's political environment should not be judged through a US lens. She said if "you continue to fund civil companies we will continue to object." She did not, however, explain what other actions the Egyptian government might take. She denied other donors were funding civil companies under their bilateral agreements. She also said that the GOE was in the process of reviewing the entire phenomenon of non-registered NGO activity in Egypt with a view of encouraging all civil society organizations to register. The Ambassador said the US would not object to organizations being registered -- probably 80% of existing direct grants went to registered

NGOs -- but that we believed all legitimate civic activities should be encouraged and not restricted by arbitrary rules.

Next Steps

¶12. (C) The Ambassador offered to try to respond in writing to the minister's May letter with assurances that the USG would continue to be transparent about funding, and to outline the proposed mechanism for security checks, but would reiterate its commitment to fund legal entities, whether they are NGOs or not. Based on today's discussions, she was not confident that we had found common ground but she was committed to trying to find a way forward. Draft language will be provided septel to the Department. USAID will also take a close look at the potential programmatic implications of the MIC decision not use FY 2009 money for USAID programs and will report septel.

SCOBAY